



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

THE TAXATION OF LABOR.

The American Theory.

THE system of taxation which the great mass of Americans instinctively accept is this: The equal taxation of all property, the non-taxation of labor.

A generation ago taxation in America was in substantial conformity with this principle; but during the past thirty years an industrial revolution has been accomplished, and vast political changes have accompanied it. The democratic principle of taxation has been lost sight of. To-day almost half of the nation's property is untaxed, and more than half of the taxation falls upon the wages of labor.

Before passing judgment upon the state of affairs which now exists, it is our duty to examine rigorously the justice of the principle which has been compromised.

The system of taxation which the American communities adopted was radically different from anything which Europe had known. Ferdinand Lassalle has summed up the history of European taxation more brilliantly than any one else, and Lassalle says that Europe has known but two systems: the first was that of the land-holding aristocracies, and its cardinal principle was the non-taxation of land; the second is that of the capital-holding plutocracies, and its cardinal principle is the non-taxation of capital. Inasmuch as the cardinal principle of the democratic communities of America was the non-taxation of labor, the contrast is complete.

There is one part of this generalization which some may doubt. No one will doubt that the land-holding aristocracies established the tax-exemption of land. In fact it was this more than any other one thing which caused and justified the French revolution. No one will doubt that the principle established in America was the tax-exemption of wages. But it is sometimes

bitterly denied that the government of the rich business men (the plutocracy) has resulted, or is resulting, in the non-taxation of capital. The European socialists believe it, and it is their most powerful argument in stirring up the hatred of the poorer classes. Inasmuch as our own system of national taxation is a copy (or perhaps a caricature) of this European system which Lassalle attacked, it may be well for us to examine how far his accusations were true.

Fortunately M. Leroy-Beaulieu, the leader of the "orthodox" school of taxationists, has discussed this point much at length in the preface to the last edition of his works.¹ Now M. Leroy-Beaulieu hates socialism with a true and perfect hatred. He not only hates socialism itself, but he hates everything which socialism does not hate. His entire argument is an attempt to prove that the poorer classes are in no way wronged by existing society. His paper is long and scholarly, and in some of its details captivately honest. The gist of it is as follows: He takes as the representative of the capitalists a Parisian with \$400,000, yielding four per cent interest, and as his representative of the laboring class an orator in a workingmen's congress, who had said that his own earnings were \$260 a year, those of his son the same, and those of his wife \$160. Leroy-Beaulieu calculates the taxes, direct and indirect, which each family pays. He calculates that the poor family pays \$72 per year, or 10.8 per cent of its income. He calculates that the family of the capitalist, consisting of *eight* persons, pays between \$2120 and \$2720 in taxes, or between 13 and 17 per cent of its income. Without calling attention to the minor unfairnesses in the argument, let us notice for a moment its main premises:

(1) Leroy-Beaulieu assumes that his representative capitalist has no income from personal services, and realizes only 4 per cent on his capital. Mr. Robert Giffen, the greatest of English statisticians, assumes that English investments average $5\frac{1}{2}$ per cent. Therefore the capitalist does not pay more than 11 per cent of his probable income.

(2) In the case of the laborer it is assumed that the family

¹ *Traité de la Science des Finances*, vol. ii., pp. 8-15.

of the workman orator is a representative one. Yet this family consisted of three adults, the income of each of whom is greater than that of the average French laborer! Among French laborers a total income of \$680 supports an average of seven or eight consumers instead of three; in other words, pays \$150 a year in indirect taxes instead of \$72. If, then, the great defender of the plutocracy has made no mistake outside of his premises, it is obvious that the Parisian capitalist pays not more than eleven per cent of his income in taxes while the Parisian laborer pays more than twenty. As the average taxation in Paris is \$40 per head, while the average income cannot exceed \$200, it is painfully obvious that 20 per cent is the very least taxation which can be assumed for the Parisian laborer. In case the American principle is right, in case the wages of labor ought not to be taxed at all, then the injustice of French taxation is such as assures another triumph of the red flag.

The situation in England is almost as bad. Though the English system of taxation is constantly spoken of in terms of the greatest admiration, yet out of \$600,000,000 raised annually, only \$80,000,000 is the product of the direct taxes upon property.¹ Of this sum about \$50,000,000 is derived from the income tax — not one-tenth of the sum total of English taxes! Yet if you listen to the constant complaints of the upper classes in England, who of course control the newspapers, you would suppose that the income tax was almost the only burden to which the English people are subjected. That part of the tax upon property which is not raised by the income tax is principally raised by the tax upon inheritances. It seems that the only time the English government can safely touch a great capitalist is when he is dead. The English tax upon land has not been increased since 1692. Meanwhile the land has increased tenfold in value. Were it not for the efforts of the liberal party in England, led by Cobden and Bright and Glad-

¹ The English local taxes ("rates") are levied upon the occupiers and not upon the owners of the property. Thus the renters are often taxed to make improvements which enhance the value of the landlords' property. The landlords not only nominally but really escape taxation. See Thorold Rogers, *Journal of the Statistical Society*, 1870.

stone and Chamberlain, the entire taxation would be paid by nobodies ; for the feeling of the influential classes is that what is paid by nobodies, nobody pays. This feeling is not unknown in America.

But European theory is not so bad as European practice.

In 1776 Adam Smith wrote in the neighborhood of one hundred pages upon the subject of taxation. Now Adam Smith had common sense until it amounted to genius, and his ideas were democratic when compared with the current theory and practice of his times. What has been said by the English school of economists since his time is generally a dilution or an adulteration of the thinking contained in Smith's one hundred pages. Smith's cardinal principle was this :

The subjects of every state ought to contribute toward the support of the government as nearly as possible *in proportion to their respective abilities* . . . that is, *in proportion to the revenue* which they respectively enjoy under the protection of the state.

No one has ever doubted the justice of the first clause of this proposition — subjects should contribute in proportion to their respective abilities — but it seems that even Smith doubted the justice of the second clause, *viz.*, that tax-paying ability is in proportion to income. Elsewhere in his work Smith says that it is not unreasonable that the rich should be taxed somewhat more than in proportion to their incomes. But Smith's more orthodox followers have insisted upon the strict mathematical formula that taxation should be in exact proportion to the income.

This is the English theory of taxation ; tremendously preferable to English practice, but in striking contrast to the theory employed by our own local governments. Are foreign writers correct in denouncing our system as the crudest ever employed by a civilized people, or is the instinct of social justice more true in our American villages than among the *élite* of culture in Europe ?

Stated concretely the English theory is this : If the capitalist with \$40,000 a year ought to pay \$2000 in taxes, then the laborer with \$400 a year ought to pay \$20 in taxes. In other

words, if society is so constituted that one man without work receives the same income as the aggregate of one hundred others who do work, the \$40,000 which supports the one hundred should pay the same amount to the state as the \$40,000 which supports the one!

But it is perhaps unfair to settle an important question of philosophy by an appeal to popular instinct. It may be that the American instinct is wrong and the English philosophy is right.

Fortunately the German philosophers come somewhat to our rescue. The economists of Germany insist that the ability to pay increases faster than the income, and that the percentage of taxation should be higher on the larger incomes. In accordance with this idea the income taxes of the different German states are progressive and not proportional. This system is favored by humane economists, yet the elaborateness and arbitrariness of these German systems of progressive taxation would condemn them in a country like our own. The progressive income tax, as Proudhon¹ remarks, is a mere "plaything of democracy." To tax an income of \$600 four per cent, and an income of \$700 four and one-half per cent, is completely arbitrary. It is based upon no principle which is obvious enough to be made the basis of a practical system of reform. The only obvious principle involved in progressive taxation is this: An existence minimum should be exempt. All sums over and above may be taxed proportionately. This is the position taken by Rau and Schæffle in Germany, by Mill in England, and by General Walker in America, and it must be insisted upon as the basis of every possible reform. He who has barely enough to provide his family with the necessities of life should pay no taxes.

This principle is as reasonable from an economic standpoint as it is from the standpoint of justice and humanity. Looked upon merely as a national investment, it pays the nation to try to secure a strong and hopeful laboring class. There is no public enterprise which is so necessary to the national welfare; and

¹ See Leroy-Beaulieu, *Traité de la Science des Finances*, vol. ii., p. 152.

whereas public charity often breeds pauperism by helping the least deserving, relief from taxation prevents pauperism. The best part of the laboring class does not want charity, but it does want its earnings. When statesmen tax these earnings, the laboring class is discouraged and enfeebled and the national wealth is lessened.

But here we are confronted by the economic doctrine that taxing the laborer raises wages! Strange to say Adam Smith believed this. Malthus, Ricardo, and their followers not only believed it but proved it. For, they argued, the natural price of a laborer, like the natural price of a horse, is the cost of his reproduction. Whatever makes it cost more to reproduce the laborer will raise the price of labor. Hence taxation will raise wages. This doctrine of the economists was of course accepted by the ruling classes, and they have shown their deep-seated humanity by levying heavy taxes in the interest of high wages. However, the time came when the delusion served a good purpose. At the time of the agitation for the repeal of the protective duty of 70 cents a bushel on wheat, the rich manufacturers hoped that the abolition of the tax would result in the lowering of wages and the enlargement of profits. Contrary to their expectation, the repeal of the tax was followed by an unprecedented rise in wages.

Ricardo's entire wage-law has been proven false. It is unnecessary here to recapitulate the demonstration. All that I shall add is that the doctrine that the taxation of the laborer raises wages is not only false, but must be reversed. Not only does the entire weight of the taxation rest upon the laborer, but his wages are lessened by more than the nominal amount of the tax.

If laborers were animals who propagated as fast as there were means of subsistence, then Ricardo's argument would be unanswerable. The price of the laborer would be the cost of his reproduction. But men do not so propagate. Instead of higher wages meaning more children, higher wages generally mean fewer children. Taxing the laboring class tends to degrade them till the animal law has fuller force; therefore low

wages tend to lower wages. When the government taxes wages, there is no recuperative tendency, but on the contrary the impulse is given to still greater deterioration. When the laboring class is compelled by taxation to resort to less nourishing food and hotter stimulants, they are not only robbed of present earnings, but their capacity for future earning is also lessened. In this way not only is the laborer robbed and doubly robbed, but the productiveness of his work is lessened, and the national wealth decreased.

We are thus brought by economic study as well as by moral instinct to the conclusion that the direct or indirect taxation of a family's necessary income must under no circumstance be tolerated. The carrying out of this doctrine in Europe would mean a revolution; its carrying out in America will mean a reform of the most radical nature.

When we continue our study of the theory that the income tax is the ideal tax, we are struck by the fact that there are different kinds of incomes. One man has \$2,000 a year income from a farm which is constantly increasing in value; another has the same income from a quarry which will be exhausted in five or six years. Ought the two men to be taxed alike? Have they equal ability to pay? The farm of the one is worth \$50,000, the quarry of the other is worth \$10,000. That both should be taxed alike is nonsense so obvious that it would be nonsense to stop to prove it. Nevertheless English economists, with John Stuart Mill at their head, assert that the temporary income of a laborer should be taxed as heavily as the permanent income of a capitalist. Out of deference to authority it is perhaps well to examine Mr. Mill's argument.

Mr. Mill compares a life annuity of £100 with a permanent income of the same amount derived from an investment. He admits that the life annuity of £100 could only be sold for £1500, while the permanent annuity could be sold for £3000. Yet he maintains that if the latter annuity is taxed £10 a year, the former should be taxed the same. For, says he, the former annuity will only be taxed during the life of the annuitant, while the latter annuity will be taxed forever. A tax of

£10 a year for life has a capitalized value of £150; a tax of £10 a year in perpetuity has a capitalized value of £300. Therefore, says Mr. Mill, justice requires that the permanent income and the temporary income shall be taxed the same per cent. No one can fail to admire the ingenuity of this argument. The trouble is that Mr. Mill has refused to look at the question in the simple way in which any one could understand it and, instead of this, has looked at it in an ingenious way in which he does not understand it himself. If Mr. Mill allows the possessor of a permanent income, the owner of a piece of ground for instance, to place to his credit all the taxes which his land will pay in the eternal future, he ought also to allow the owner to place to his credit all the taxes which the land has paid in the centuries past. If the land has already paid £300 in taxes, the present possessor should not be taxed at all. Mr. Mill is the last person in the world who would admit this. Mr. Mill lays down very clearly that justice requires every person to be taxed in proportion to his ability. In the argument before us he discusses not justice to *persons*, which is the true meaning of justice, but justice to *incomes*, which is nonsense. If he had looked at the question simply, he would have said that the owner of the permanent income of £100 could exchange it for a life annuity of £200 and was able to be taxed accordingly.

It is therefore clear that in the above example the income tax upon a life annuity should be reduced to one-half. Ought an income from labor to be taxed as much as a life annuity? The capitalized value of the £100 rental was £3000; the capitalized value of the £100 annuity was £1500; the capitalized value of £100 income from labor is—nothing. Ought the laborer to be taxed as much as the annuitant?

If the state levies all of its taxes upon capital, it still secures to the capitalist his own earnings and the accumulations of his ancestors and from four to six per cent interest on these accumulations. If it does all this for the capitalist, it ought certainly to secure to the laborer the earnings of his own work.

But let us waive for the moment this American doctrine that wages should not be taxed. Let us assume the European

dogma that the annuitant and the laborer should pay the same tax upon their £100 incomes, though the one income is conditioned upon labor and has no market value,¹ while the other income is unconditioned and is worth in the market £1500. On this basis, where ought the burden of English taxation to rest?

In Great Britain in 1875 the amount of capital, according to Mr. Robert Giffen's estimate, was \$43,000,000,000; the income from the same \$2,400,000,000. Those who participated in this income did not exceed 1,500,000 families. This same sum of \$2,400,000,000 is (judging from Baxter's estimates) the approximate income of the 7,500,000 families of laborers. How much ought each class to be taxed?

First, we must exempt each family's "necessary income." American public sentiment would say at least \$300 a year, but we will accept Mill's figure, \$250. The 1,500,000 families of the capitalist class have an average "labor" income of \$500. For the sake of argument we will exempt this entire amount, and tax the capitalist class only upon the \$2,400,000,000 income from capital. If now we allow each laborer's family an exemption of \$250, we exempt \$1,875,000,000, leaving \$525,000,000 subject to taxation.

But this \$525,000,000 is not a permanent income from capital, but a temporary income from labor with no capitalized value at all. Yet for the sake of argument let it be conceded to be half as valuable as the same income from capital. Thus the laboring class should be taxed on \$250,000,000; the capital class on \$2,400,000,000. Inasmuch as the aggregate of English taxation is about \$600,000,000, the capitalist class ought to pay \$540,000,000, and the laboring class \$60,000,000. At the present time England levies from the laboring class over \$100,000,000 by its tax upon intoxicants. If, then, it should try to adopt a just income tax, it would be forced to adopt the American system of the direct taxation of capital and exemption of wages. In other words, *a property tax is the only just income tax.*

¹ There are certain labor incomes which may be said to have capitalized value, *e.g.*, those above \$1000. But these incomes are exceptional and generally belong to the capitalist class.

When I say that the property tax is the only just income tax, I do not mean to claim that it is the ideal income tax. A great deal has been said about the large professional incomes which it permits to escape untouched. In fact, so much has been said about this that the whole subject has been enveloped in the fog thus generated. I do not deny the objection, but simply condemn the sense of perspective of those who urge it. Doctors and lawyers occupy a large place in the national imagination, but their incomes occupy a very small place in the nation's ledger. They do not receive one per cent of the national income. Furthermore, the possessors of the great part of this one per cent are taxed with reasonable justice by the taxation of property. That a system shall be just in its general outlines is all that we have a right to ask for or to talk about. To ask, as German professors do, that the government shall microscopically examine the business and personal relations of each citizen and take into account how much his tax-paying ability is affected by lucky or unlucky speculations, local rise or fall in real estate, sickness in the family, number of children, *etc.*, is absolutely unjustifiable except under an all-wise, all-powerful, and all-just paternal government, which institution neither the Germans nor ourselves at present possess.

When we come to examine the practical workings of an income tax, we condemn it more than when we simply discuss its abstract justice.

In the first place, no state has ever dared attempt to carry it out. It is a direct tax; and as the nation knows that it is being taxed, the nation's sense of justice is able in a measure to assert itself. This sense of justice has nowhere permitted a proportional income tax.

In England all incomes less than \$750 are exempt. The result is not only an exemption of "necessary incomes," but of labor incomes generally. In Prussia, by the law of 1883, all incomes less than \$225 are exempt, and the tax of 3 per cent is first reached at \$750. It is not until we reach the domain of incomes from capital that the income tax proper is permitted to begin.

Yet even this democratic income tax is hardly more than a farce. So great is the amount of fraud which it causes, so great is its injustice to those who are so honest or unfortunate that their real incomes are known, that only the most thorough-going haters of the plutocracy are in favor of changing the tax from a "democratic plaything" into the great source of revenue. In Prussia only one-eighth and in England only one-twelfth of the revenue is derived from the income tax. Were it the one source of revenue instead of a trifle, the fraud and injustice it occasions would be increased tenfold.

Of all the German states, Saxony has, perhaps, succeeded best in carrying out its income tax. The Saxon statistics are thoroughly worthy of study.

Incomes under \$75 are exempt from taxation. Out of a population of 2,760,000, 999,217 were assessed.

The national income was as follows:¹

	Official Statistics.	Probable Statistics.
From Lands and Houses	\$55,000,000	\$60,000,000
From Stocks and Negotiable Paper . .	27,000,000	54,000,000
From Salaries (Wages)	76,000,000	100,000,000
From Profits in Manufactures and Trades	98,000,000	200,000,000
Total	\$256,000,000	\$414,000,000
Deduct Interest on Mortgages . . .	21,000,000	21,000,000
Net Income	\$235,000,000	\$393,000,000

The national income was divided as follows :

Incomes	Per cent of National Income.	Per cent of Tax Payers.
Between \$75 and \$275 embraced	47	84
" 275 " 550 "	16	10
" 550 " 2,100 "	20	5
" 2,100 " 135,000 "	17	1

¹ Schaeffle, *Steuerpolitik*, p. 138.

The first point which strikes our attention in these tables is this: The incomes from wages and salaries constitute only one-third of the returned income, and only one-fourth of the probable income of the nation.¹

Certainly this class ought not to be taxed at all. Yet this class pays most of the taxes. By these taxes its wages are reduced to that starvation point which makes the laborers unable to earn anything. No one who has seen five Saxon laborers employed in unloading a brick-wagon, by passing the brick along one at a time, and five more in a similar way doing the work of one American hod-carrier, will wonder why Saxon wages are so low. The laboring class is so starved that it cannot earn greater wages. Yet economists are found who say that taxation raises wages!

The second point which strikes our attention is that 84 per cent of the tax-payers return incomes of less than \$275. It is evident that there is a great amount of fraud perpetrated, even in regard to the small incomes.

But the principal point which strikes our attention is the immense frauds perpetrated by the capitalist class. Almost the entire capital of Saxony is owned by men having incomes above \$275 a year. This capital, if we may judge from French statistics, is about \$3,000,000,000. But if we suppose that this capitalist class owns only \$2,400,000,000 of capital, and realizes therefrom only 5 per cent (half a per cent less than Giffen's supposition for England), its income from capital would still be \$120,000,000. Yet, according to the returns, \$120,000,000 is its total income. According to the returns, the 160,000 most successful business and professional men in Saxony earn an aggregate income of — *nothing*!

These facts completely nullify the strongest of all arguments for the income tax. I mean that of Professor Wagner of Berlin — Bismarck's organ among political scientists. Professor Wagner believes that there should be as many kinds of taxes as there are kinds of incomes. He admits that an

¹ This point is commended to the attention of those American "statisticians" who say that labor receives ninety per cent of our national income.

income from capital should be taxed twice as heavily as the same income from labor, and urges that the income from capital be struck by both the property tax and the income tax, while the income from labor be struck by the income tax only. In the light of statistics this apparently strong position is worthless. The income tax does not supplement the property tax except in the case of the very poor, the very honest, and the very unfortunate. Professor Wagner believes in the principle of progressive taxation. Yet the least socialistic form of this doctrine is the exemption of necessary incomes, and the proportional tax of all that is over and above. In other words, the mildest form of Professor Wagner's doctrine practically means *the non-taxation of labor, the proportional taxation of property.*

But if in Saxony we are forced to the conclusion that even a rationalized income tax is a failure, what shall we say of it in lands where the government is not so all-vigilant and all-powerful?

Austria and Italy are cases in point. In both countries a certain income is exempt. In Austria the percentage of taxation grades from one to ten. In Italy incomes from property are taxed twice as much as incomes from labor. Thus in both countries public sentiment has reformed the income tax and brought it in accordance with the principles of justice. But how about the principles of honesty?

In Austria, Schaeffle tells us, more than half the national income is derived from agriculture. Yet the total income returned in 1878, by those engaged in farming, was \$80,000,000. If these returns were correct, the Austrian government spends more than the aggregate income of all the people! The taxation is more than 100 per cent of the incomes!

In Italy the success of the government is quite as bad, though it is more difficult to make a comprehensive statement of the result. Very significant, however, is the fact that the fourteen thousand lawyers return an average income of \$146, while the eight thousand doctors return an average of \$89!

Some of the cantons of Switzerland are democratic enough to have a property tax as well as an income tax. This gives us

an opportunity to compare the two. (The following statistics for Neuchatel are condensed from those of Leroy-Beaulieu.)

Fortunes (Francs).	No. of Owners.	Total Amount (Francs).
0— 50,000	42,245	168,980,000
50,000— 200,000	1,021	104,300,000
200,000—1,000,000	281	105,150,000
1,000,000—	14	22,750,000
Incomes (Francs).	No. of Owners.	Total (Francs).
0— 3,000	42,714	25,628,000
3,000— 8,000	815	3,704,000
8,000—30,000	117	1,473,000
30,000—	5	215,000

1316 persons returned fortunes of over \$10,000, yet only 937 return incomes of over \$600! Leroy-Beaulieu speaks of the American system of taxing property as the "grossest system used in modern times." He is righteously indignant over the frauds which it occasions. Nevertheless the frauds occasioned by the income tax are double those occasioned by the property tax. The government of Neuchatel was able to prove that its hundred richest citizens possessed an aggregate fortune of \$14,500,000; yet it could only prove that they had an aggregate income of \$290,000, exactly 2 per cent of the demonstrated capital. If we assume that capital in Neuchatel yields but 4 per cent, then the personal services of these hundred rich business men yielded \$290,000 less than nothing. While political scientists have always urged that an income tax was needed in order that the large incomes from personal services should not be exempt, we find that these incomes are exempt, that the money-making classes are enabled to pretend that they earn nothing and even that they lose money by engaging in business. We must, therefore, sum up by saying that the direct taxation of labor is an outrage in the case of the poorer classes,

and a fraud in the case of the richer. The proportional income tax, which has been the eternal hobby of the orthodox school of economists, is a crime against the poor and a glaring injustice against the incomes from labor. The most absolute governments have not dared to enforce it. What they have pretended to enforce is the progressive income tax, and this, whenever just, resolves itself into the American doctrine: *The non-taxation of labor, the proportional taxation of capital.*

The Burden of National Taxation.

The European theory of taxation would seem to be the essence of plutocracy, were it not that we must compare it with the practice. With few exceptions, the income tax is the most equitable tax in Europe, and is far more equitable than our own system of national taxation.

The reason for this is not hard to find. The income tax is a direct tax which arouses the attention of all classes and is necessarily controlled by public opinion. The crying injustices arise in the domain where the control of public opinion is escaped. It is hard to rob the laboring classes when they are awake; it is easy to rob them when they are asleep. When the laborer pays one dollar income tax, he knows that he is paying something for which the government is responsible, and he holds it responsible. When he pays fifteen dollars for a shoddy suit of clothes, or eight dollars a month for a hovel, he does not hold the government responsible, but thinks this price is a part of "the nature of things" against which it is hopeless to struggle. As a consequence it is harder for the government to rob the laborers of five millions by means of an income tax than to defraud them of five hundred millions by means of indirect taxation. A tax which is not controlled by public opinion must be controlled by the interests of the governing classes.¹ To

¹ It is perhaps worth while to notice the extreme popularity which attended the repeal of the stamp duty on bank checks, three years ago. Every business man and every newspaper rejoiced to see the tax removed. Not even the bitterest free-traders suggested that our revenue would be reduced just as much by removing the tax on rice. Not one man in ten thousand knew there was such a tax. Yet the tax on

abandon the control of public opinion in the realm of taxation is to abandon democracy.

The plutocratic significance of indirect taxation received its first powerful exposition from Ferdinand Lassalle in his oration entitled *The Indirect Tax and the Position of the Laboring Classes*. Lassalle said that the indirect tax was the institution through which the *bourgeoisie* (the capitalist class) realizes for capital freedom from taxation and throws the public burdens upon the poorer classes of society. The democracy of Germany knew that he told them the truth, and they are fighting to-day for "a single progressive income tax in state and community, instead of all existing taxes, especially the labor-crushing indirect tax."

At the beginning of our government, indirect taxation was extremely unpopular in America. In fact, the colonists had felt its pressure so keenly under English rule that only the absolute necessities of the central government secured its re-introduction. Having once been adopted, however, the most influential classes became interested in its development. The necessities of the government, the justice of retaliation, and the theory of "protection" were all pleaded in favor of the indirect taxes, and up to 1846 the party favoring them scored victory after victory. Between 1846 and 1860 a decided change for the better took place, and indirect taxes became more and more unpopular. But then came the war. The rank and file of the people thought that any system of taxation was justifiable. The great lobbying interests saw to it that instead of their being taxed they became the recipients of taxation. What Lassalle had said of Europe became true of the national taxation in America. The capitalist class obtained immunity from taxation; the public burdens were thrown upon the poorer classes of society.

That this is the necessary result of indirect taxation ought not to require a more extended demonstration. But inasmuch as very many sensible people have been persuaded to disbelieve

checks rarely amounted to one-tenth of one per cent, while the tax on rice amounts to 114 per cent.

it, and inasmuch as it is the all-important fact in taxation, it is worth while to give it a severe demonstration.

As a starting-point for this demonstration I shall state that what I wish to prove is nothing more than what is freely granted by Professor von Stein of Vienna, one of the greatest defenders of indirect taxes. Von Stein's words are as follows :

While direct taxation carries out the taxing of capital as the basis of incomes, *indirect taxation is the taxation of labor*. This is its simplest and clearest conception. So long as there has been a science of finance this conception has scarcely been seriously doubted.¹

While the great advocate of indirect taxation speaks thus, we find ten thousand small advocates of the system claiming that they are the friends of the laborers because "indirect taxation is the taxation of the consumer."

The laboring class are spoken of as producers, the capitalist class as consumers. Hence the cry-word, "Tax the consumer." Unfortunately the popular significance of the word consumer is not the same as its legal significance. In the eyes of the law whoever makes money, whether from capital or labor, is a producer ; whoever spends it, is a consumer. Therefore a law to tax the consumer taxes the laborer upon his entire income, since he spends it all, and taxes the capitalist on only about half of his income, since that is all that he spends. The grotesque injustice of such a tax can best be seen by referring to the practical example of the capitalist with \$40,000 a year. In the eyes of the law this man "produces" the same amount of wealth as the hundred laboring men whom he employs at the high wages of \$400 each. The \$40,000 received in wages supports a hundred families ; the \$40,000 received as profits supports one family. According to American ideas, the burdens of the state ought not to rest at all upon the first \$40,000. But if the demagogic cry of taxing the consumer be adopted, where must the burden rest ? The hundred families of laborers need their entire \$40,000, while the capitalist family needs but \$10,000. Not only *must* the taxation of the consumer fail to exempt the laborers,

¹ Lehrbuch der Finanzwissenschaft, vol. ii., p. 170.

but *must* tax them upon four times the amount on which it taxes the capitalist.

But this is not the worst of it. The injustice which *must* result from this system, is small compared with the injustice which *does* result.

Our indirect taxes are levied upon articles which constitute a small item in the expenditures of the rich, and a large item in the expenditures of the poor. The expenses of the rich are largely for servants, horses, travelling, *etc.*, upon which there is no tax. The burden of national taxation rests principally upon the following objects : wearing apparel, \$60,000,000 ; sugar, rice, *etc.*, \$55,000,000 ; whiskey, tobacco, *etc.*, \$127,000,000. Three-fourths of our national revenue is derived from these three classes of articles. The taxes upon tools, stove-ware, tin-ware, *etc.*, are equally unjust, but the consideration of them in this connection would simply prolong the argument. We will merely examine the distribution of the heavy taxes above referred to.

It is sometimes claimed that the taxes upon wearing apparel are heaviest upon the goods worn by the rich. This remark implies complete ignorance of the influence of *specific* taxes. If a tax is five cents a pound upon all goods of a certain kind, this will be a tax of 20 per cent upon goods worth twenty-five cents a pound, and a tax of 40 per cent upon goods worth twelve and a half cents per pound. So many of our national duties are specific that the poorer grades of goods are taxed more heavily than the better.

How much do our laborers with \$40,000, and our capitalists with \$40,000, each spend for cloth and dry goods ?

A sharp distinction must be drawn between expenditures for wearing apparel and expenditures for dry goods and cloth. The tax is upon the latter. Stylish people pay more for the making-up of their goods than they pay for the goods themselves. Upon this making-up there is no tax. A capitalist may spend nine times as much for clothing as the laborer, and not spend more than six times as much for cloth. At all events, it is safe to say that one hundred laboring families, with \$40,000 a year, use

ten times as much dry goods and cloth as the capitalist family with the same income.

The duty upon sugar is the same for all classes, about 73 per cent. At the same time it is true that all classes consume about the same amount. Certainly the capitalist does not eat more than four times as much sugar as the laborer. It is, therefore, safe to say that the one hundred laboring families pay twenty-five times as much of the sugar tax as does our capitalist with the same income.

It is possible that the capitalist spends eight times as much for tobacco and stimulants as does the laborer. The tax upon tobacco is really, though not nominally, an *ad valorem* duty of something over 100 per cent; but the tax upon capitalists' wines is only 60 per cent, while that upon the laborers' whiskey is 300 per cent—five times as great. It is, therefore, certain that our hundred laborers pay forty times as much of these taxes on luxuries as does our capitalist of like income.

According to the principles of the Prussian income tax, these laborers ought to pay one-fourth as much as the capitalist. According to the American principles they ought to pay nothing. Yet these taxes of the consumer compel them to pay, on the average, *twenty times* as much as the capitalist of like income. Let it be objected that our capitalist is the exceptional one.¹ Let us divide his income in two and let his expenditures remain the same. The result is still startling. *The taxation of the consumer, instead of exempting the laborer, taxes him ten times as heavily as the capitalist.*

In discussing indirect taxation we are brought face to face with the question of protection. We will avoid the old discussion as to whether "protection" increases or diminishes the aggregate wealth of the nation, and confine ourselves to its effect upon the laboring classes.

The first troublesome question is the extent of these protective taxes. It is easy to find out that our indirect taxation assesses \$350,000,000 for revenue; how much does it assess for protection?

¹ See statistics on page 410.

Anything which is said upon this subject cannot claim to be much better than a guess. The free-trade politicians are in the habit of representing that it is a sum in the neighborhood of \$350,000,000. The protection politicians take two contradictory grounds; one that the tax is insignificant, the other that without the tax one-third of the industries of the country would be bankrupt. According to the protectionists, therefore, the amount of aid which protected industries receive from the government is anywhere from nothing to one billion. A short study of the facts may bring us to results somewhat more satisfactory.

The class which has always demanded protection in America consists of mine-owners and manufacturers. The protection accorded to the owners of sugar plantations, sheep farms, *etc.*, does not probably exceed \$20,000,000. Even of this sum the great bulk is paid in the first instance by the manufacturers. The same remark applies to the mining products. When therefore we consider the amount of taxation devoted to protection, we may almost confine our attention to the manufactories.

We have only to glance at our manufacturing statistics to notice that the majority of these industries are not even nominally protected.¹ We may assume that one-third of them are. Our total manufacturing industries produced in 1880 a gross product of \$5,369,000,000. We may therefore assume that our protected industries produced \$1,800,000,000. The average protective tax is 46 per cent. The manufacturers claim that they need the whole of it. We cannot assume, however, that on the average they sell their goods for more than 20 per cent above free trade prices. The inference is that the advance which they receive through taxation is about \$300,000,000. But we must remember that the finished product of one manufactory is often the raw material of another. These same manufactories pay \$1,100,000,000 for raw material. On this raw material we may suppose that they have had to pay an advance of \$140,000,000 on account of protection. The part of this which goes to mine-owners and wool-growers we should not de-

¹ *E.g.*, blacksmiths, printers, carpenters, and masons are not protected.

duct, but we should deduct what goes to other manufacturers and to the custom house. In other words, we ought to deduct about \$100,000,000 from the \$300,000,000 which the manufacturers at first seem to receive. Our result is that the protective taxes levied upon the consumer amount to about \$200,000,000.

It does not fall within the scope of this paper to discuss whether or not it is a profitable investment to donate these \$200,000,000 to industries which are not self-supporting. The free-traders claim that it is a dead loss, and perhaps worse than a dead loss. The protectionists claim that it is a most brilliant piece of statesmanship. The country has heard the arguments over and over again. The South, including the business men, believes in free trade. Pennsylvania, including the scholars, believes in protection. Throughout the rest of the country, the investigators are decided free-traders; the manufacturers and mine-owners are decided protectionists. The general public believes with its party, or, more properly, does not believe at all. It never will. The question how many millions richer or poorer the country is made by protection is a question for specialists. It is not a political question. The question how many millions protection takes from the poorer class in order to protect the richer is, in the highest degree, a political question. The lamentable distribution of wealth is our greatest source of discontent and suffering. If the rich, who are the staunch advocates of protection, really believe in it, let them pay for it. If they will do this, the democratic scholar will turn his attention to other questions.

But here we are met by the pitiful pretence that protection raises wages. From the historical standpoint this plea is peculiarly interesting. When Henry Clay urged protection, half a century ago, Mr. Webster said: Our high wages prevent our engaging in the industries which demand to be protected. Our ordinary labor is worth sixty cents a day; that of Sweden is worth seven cents. We cannot afford to have our productive labor engage in work where it only produces seven cents a day.

Mr. Clay replied: The labor bill is a very small item in manufacturing industries. The work is so largely done by ma-

chines that we need not take the labor point into consideration. We see that Clay admitted that the tremendous difference then existing between American and foreign wages was an objection to protection. Protectionists now pretend that this difference (which still exists in a lesser degree) is due to protection. Every lobby which has gone to Congress has said that the high wages already existing prevented their industry. The same persons are now going before the country asserting that their industries have caused these high wages.

If the capitalists of this country believe in levying taxes so as "to make wages high," why do they not urge that it be done directly? If one-tenth of the profits of capital were taken by the government and given to the wage-receiving class, these capitalists would cry socialism, anarchy, robbery. Yet they urge from the stump that we must "tax the rich consumer in order to pay high wages." The sham is apparent. Protection is socialism, but it is socialism of a perverted kind. It takes from one class what it earns, in order to give to another class what it does not earn. The reason why protection-socialism is respectable is because, instead of taking the "earnings" of the plutocracy to benefit the rank and file, it takes from the rank and file to benefit the plutocracy.

Protection makes American wages high! Why, in proportion to the work done, American wages are as low as French wages or German wages. In England the successful manufacturer demands six per cent on his capital; in Germany he demands eight per cent; in America he demands ten per cent. American wages are high, but not with respect to the value of the work done. One would suppose from the protection clamor that out of \$100,000 worth of goods produced, the American laborer got about \$80,000 and the German laborer half as much, or \$40,000. This would leave the American capitalist \$20,000 and the German capitalist \$60,000. As a matter of fact, the German capitalist receives less on his investment than the American capitalist. Wages all over the world are proportioned to the value of the work done. They are the same (or higher) in free-trade Australia as in protective America. They are fifty

per cent higher in free-trade England than in protective France or Germany. In Germany they are highest in the free-trade cities of Hamburg and Bremen. In America they are highest in Minnesota and Iowa, all of whose industries are in competition with the pauper labor of Europe. That which fixes the nominal wages of a day's labor is the amount of gold which a day's labor will produce. The gold must either come from our own mines or from abroad. Under free trade a day's labor in our own mines would produce exactly the same amount of gold, and a day's labor on our farms would bring exactly the same amount from Europe. The nominal wages of a day's labor is independent of protection or free trade. The idea that protection raises wages is as impossible from the standpoint of philosophy as it is ridiculous from the standpoint of history and statistics.¹

But in this painful review of the axioms of political economy, we have discussed what would be the effect of protection in case it were paid for by taxing the capitalists. But we all know that the capitalists are in favor of protection. We also know that though they are in favor of a system of taxation which gives money to capitalists "in order to employ labor," they would violently oppose a system which gave money to the laborers in order to employ capital. Yet if \$200,000,000 given to the capitalist to employ labor protects labor, then \$200,000,000 given to laborers to employ capital² would protect capital. But if the laborers should use taxes to "protect" capital in this way, the capitalist would not allow the republic to stand. The reason why the capitalists favor our present system of protec-

¹ Under free trade, not only would labor in the mining and agricultural industries produce the same as now, but also in the building industries, the trading industries, the transportation industries, the "personal service" industries, *etc.* The labor engaged in the protected industries would produce more. For if it continued in the same industries, it would produce the same wealth (goods) as now; and if it changed, it would only be that it could produce more elsewhere. So far as the productiveness of the labor is concerned, Webster's argument against protection is absolutely valid. If the wages of labor depend upon how much wealth it produces, then protection slightly lowers nominal wages.

² *E.g.*, to pay rent.

tion is apparent the moment we consider who pay for it and who receive the direct benefit.

Does our protective system tax capital? No. Does it tax labor? Yes. Which does it protect, capital or labor?

We all know that all commodities belong to capital, and that the object of all labor is the purchase of commodities. If a day's labor brings few commodities (as in Germany), then labor is cheap and commodities dear. If a day's labor brings many commodities (as in Iowa), then labor is dear and commodities cheap. The economic object of all civilization is to lessen the labor-cost of commodities; to make labor dear and to make commodities cheap. Is this the effect of protection?

1. Does our protective system shut out cheap labor?
2. Does our protective system shut out cheap commodities?

To the first question we must answer a decided "No." Our legislation (except in the Chinese bill) has invited cheap labor to our shores, and cheap laborers have come by the hundreds of thousands. The pretence that the exclusion of imports (capital) increases the demand for home labor is ridiculous to any one who has even glanced at our commercial statistics. Every dollar of imports is paid for by a dollar of exports. When we shut in as many exports as we shut out of imports, and cramp commerce in the bargain, we are hardly increasing the demand for American labor.

But not only does our legislation allow the capitalist to get all the cheap labor he wishes from abroad, but it permits him to use machine labor at home. Forty years ago the laborers opposed this on the ground that they could not withstand such overwhelming competition. At this time political economists and capitalists both said that it was the height of injustice to forbid the capitalist to spend his money where he liked. It was regarded as the essence of communism to make capitalists pay more for labor than it was naturally worth.

This brings us to our second question. If it is communism for legislators to make the capitalist pay more for labor than it is naturally worth, is it not an inverted communism to make labor pay more for commodities than they are naturally worth?

The commodities of the country are owned by capital ; they are to be bought by labor. If legislation raises their price, it enriches "capital" by injuring "labor." Our legislation does not try to shut out cheap labor, but it does shut out cheap commodities. This raises the prices of all commodities with which those commodities would compete. The owner of a sugar plantation can receive fifty per cent more for his gross product, or one hundred per cent more for his net product. This doubles rent and protects capital. The same is true of the owners of iron mines. Much the same thing is true of the owners of various manufactories. But the capitalist class desiring protection does not end here. During the war it was noticed that business men would urge the government to increase the internal revenue taxes (such as the taxes on the manufacture of carriages), in order to increase the price of the stock on hand. In the same way now not only the manufacturers but all wholesale dealers in protected commodities are interested in maintaining the duty since it raises the price of the goods which they have in stock. Nine-tenths of the consumers who must buy these goods belong to the almost propertyless masses. Upon them falls the burden of this enormous system of taxation. The capitalistic class will always favor our protective system. It permits them to buy cheap labor, while it compels the laborer to pay dear for commodities.¹

It is a very significant fact with reference to protective taxes that they are constitutional when they tax labor and unconstitutional when they tax capital. It has often been proposed that municipalities and states should levy a property tax in order to "foster" or "pension" manufacturing enterprises. When this proposition was submitted to the Supreme Court of Maine, the opinion (unanimous) of the judges was as follows :

All useful laborers, no matter what the field of labor, serve the State by increasing the aggregate of its products — its wealth. There is nothing of a public nature any more entitling the manufacturer to public gifts than the sailor, the mechanic, the lumberman, or the farmer. Our

¹ People whose income from capital is insignificant are ranked with the laboring classes.

government is based upon equality of rights. All honest employments are honorable. The State cannot rightfully discriminate among occupations, for a discrimination in favor of one branch of industry is a discrimination against all other branches.¹

In the famous *Loan Association vs. Topeka* case, Justice Miller gave the decision of the court as follows :

If it be said that a benefit results to the local public of a town by establishing manufactures, the same may be said of any other business which employs labor and capital. The merchant, the mechanic, the innkeeper, the banker, the builder, the steamboat owner, are equally the promoters of the public good and equally deserving the aid of the citizens by forced contributions. No line can be drawn in favor of the manufacturer which would not open the coffers of the public treasury to two-thirds of the business men of the city or town.²

Even the Pennsylvania court has taken the same position :

To lay with one hand the power of the government on the property of the citizens and with the other to bestow it on favored individuals to aid private enterprises, and build up private fortunes, is none the less a robbery because it is done under the forms of law and taxation.³

The principle of democracy is : Equality before the laws for industries as well as men. To exempt one industry from taxation is to abandon democratic justice and to establish an industrial aristocracy. To not only exempt it from taxation but make it the recipient of taxes is to give this industrial aristocracy the feudal privilege of legal robbery. When the favored industry subjects capital to contribution, the courts denounce the crime as "robbery." When it subjects labor to contribution, the aggravated crime is called — "Protection !"

The Burden of Local Taxation.

All that has been said is in support of the principles which underlie the American system of local taxation. These principles, however, are being seriously compromised in our current

¹ 58 Maine, 590.

² 20 Wallace, 653, 664.

³ Sharswood, J., in *Durach's Appeal*, 62 Pa. St., 491-495.

practice. Formerly our direct taxes were upon capital pure and simple. Now a large part of the burden has been transferred from the capitalist to the consumer.

Our system of local taxation was originated at a time when there was only one kind of property, *viz.*, real estate. At the present time probably one-half of our national property is personal. (In England about three-fifths is personal.) Up to 1860 our system seems to have been administered with justice. In that year the assessed value of the nation's property was three-fourths of its probable real value. This means that almost the entire property was taxed. At the present time the property assessed for taxation is not quite one-third of that which actually exists. This means that one-half of the nation's capital escapes. This is the half which belongs to corporations and great capitalists. It is the half invested in personal property.

What is the effect of thus exempting half of the nation's wealth from local taxation?

In the country communities there is no especial effect. The amount of personal property is small, and exists principally in the form of live stock, farming implements, *etc.* These are generally taxed. The increased burden thrown upon real estate in the country is therefore insignificant.

In the cities the case is quite different. In the cities of Saxony¹ less than one-fourth of the *returned* income of the capitalist class was from real estate. This means that fully three-fourths of their capital was invested in personal property. If this be true in the cities of Saxony, it must be true in the large cities of America. But what do we find?

In New York City the amount of real estate returned for taxation was, in 1880, \$918,000,000; the amount of personal property returned, \$322,000,000! In Brooklyn the amount of real estate was \$231,000,000; the amount of personal property, \$13,000,000!

We must not pass snap judgment upon this perversion of our system. The greatest American authority upon taxation,

¹ Schaeffle, *Steuerpolitik*, p. 138.

Mr. David A. Wells, believes that personal property ought to be exempt. He believes that we ought to have honestly and legally the system which we do have dishonestly and illegally. This were certainly a great gain.¹ Our present laws of taxation affix as great a penalty to honesty as our criminal laws affix to dishonesty, and the punishment is vastly more certain. Nevertheless we must consider two great questions which come up in reference to Mr. Wells' theoretical and Mr. Gould's practical solution of the taxation problem.

1. What effect does it have upon the national production of wealth to stimulate a disproportionate development of personal property?

2. What effect does it have upon the distribution of wealth to throw the entire city taxation upon real estate?

The first question hardly falls within the scope of this paper. It would seem that when a disproportionate amount of wealth crowds into a certain class of investments, the national capital is not being placed to the best advantage. But we ignore this point since we are discussing taxation, not as a problem in political economy, but as a political and social question.

With reference to our second question, many English political economists speak of taxing people in proportion to the rent which they pay as the most equitable of all systems, since the amount of rent is generally proportional to the income. Mr. Wells evidently shares in this opinion. The system is marvelously equitable when we compare it with the various systems of indirect taxation. Yet even if it should tax people in proportion to their income, it would still be enormously unjust to the smaller incomes from labor. But it has not even the merit of taxing in proportion to income.

Here may be cited one case where practical legislation was more just to laborers than are the speculations of the political economists. The case occurred during the French Revolution.

¹ Henry George says: "Our revenue laws as a body might well be entitled 'Acts to promote the corruption of public officials, to suppress honesty and encourage fraud, to set a premium upon perjury and the subornation of perjury, and to divorce the idea of law from the idea of justice.'" — *Progress and Poverty*, p. 374.

The Constitutional Assembly of 1791 imposed a tax upon rent upon the following basis. A yearly rent of from \$20 to \$100 indicated an income of three times the rent; a yearly rent of from \$100 to \$200 indicated an income of four times the rent, *etc.*; and finally a rent above \$2400 indicated an income of twelve times the rent.

A very little commonplace investigation will show that the French revolutionists were about right and that the English political economists are entirely wrong. Our laborers in American cities receive from \$350 to \$450 a year, and they pay in rent from \$84 to \$144. Certainly in the neighborhood of one-fourth of their income goes to the landlord. In Europe the amount of the laborer's income which goes to the landlord is about one-fifth. So much of our problem is very simple. When, however, we come to consider how much of his income the capitalist spends in this way, we have no acknowledged facts to start from. There are two distinct classes of the rich: the money-making rich and the money-spending rich. The latter are more prominent in society, and it is of them alone that the English economists seem to have thought. We must therefore examine the question statistically.

In German cities, house rent appears to take about one-thirteenth of the total income; in France, about the same; in England, a good deal more; in American cities, perhaps one-seventh.¹ Except in the case of Germany, these estimates are of no weight except to the person who makes them. Yet there is an estimate which every one can make, and in which all will practically agree. Let any one take the ten richest men in his city and he will find that they do not devote more than an average of six per cent of their income to house rent. The laborer spends one-fourth of his income in house rent; the rich capitalist spends one-sixteenth. If these taxes upon real estate are

¹ The German statistics are taken from a comparison of the incomes derived from house rents with the total incomes of the cities. (See table, page 410.) The French statistics from an estimate of Leroy-Beaulieu; the American statistics from the questionable assumption that the assessed value of all city real estate was approximately the real value of the dwelling-house property.

shifted upon the renter, there is an enormous injustice to the laboring classes.

Mr. Wells seems to assume that the tax is thus shifted. He says: "The idea that owners and occupiers of land or buildings pay exclusively the taxes upon such property is a fallacy long ago exploded."¹ This shifting process which seems to be assumed is, however, not entirely realized.

So far as land is concerned, the shifting process does not take place at all. A piece of farming land is worth \$10,000 because its products sell for say \$500 more than it costs to produce them. If an additional tax of one per cent (\$100) is levied upon the owner, the supply and price of the products will remain the same, and the cost of producing them will remain the same. The owner's net profit then will be \$400 instead of \$500. The entire tax rests upon him. This is one of the elementary propositions of political economy.

The same rule holds good in regard to the land in cities. If one building lot is worth \$10,000 more than another of the same size, it signifies that (with a building) it can be made to yield a net rent of say \$500 more than the cheaper lot can be made to yield. If an additional tax of one per cent be levied, the difference in desirableness between the two lots will certainly not be increased. The owner must pay the tax and cannot raise the rent. If the state should carry out Mr. George's proposition and confiscate all land rents, no one but the land-owners would be affected. From the standpoint of Mr. George, what appears to be the intellectual error of Mr. Wells is the one recommendation of his system.

In the case of the tax upon buildings the situation is quite different. Old buildings must be replaced and new ones must be added. This will not occur unless the builders can secure the average net profit upon their investment. In case this is six per cent and the city taxation is two per cent, they will not build unless the renters will return them this two per cent as well as the six.

But this does not mean that the tax upon buildings is thrown

¹ Local Taxation, p. 56.

entirely upon the renters. If it did, then there would be no such thing as the direct taxation of capital.

If our national and local taxes were thrown entirely upon capital, and all capital were subjected to the levy, the tax would be about one and one-half per cent. (In case this change brought about economy in the management of national finances, the tax would be only about one per cent.) Now if this tax were thus levied, the producing power of capital would be in nowise altered, the demand for it would not be increased, the supply of it would not be appreciably diminished. The entire tax would rest upon the capitalist.

If now half the property should be suddenly exempted from the tax and the entire taxation be levied upon the other half, this second half must at first bear the entire burden. If personalty and realty had each been yielding seven per cent and paying one per cent in taxation, and the whole tax were transferred to realty, personalty would now yield seven per cent clear and realty only five per cent. In so far as realty consisted in land, this burden could never be shifted. But in so far as realty consisted in houses, the burden would soon be shifted. No more houses could be built until rents had risen sufficiently to pay capital the same net profit that personalty is yielding. If this be seven per cent, then rents must have risen to nine, and the entire burden of the house tax is thrown upon the renter.

But the profit on personalty cannot remain seven per cent. This species of investment will be over-crowded until the net profit without any tax is little greater than the net profit formerly with the tax. If this be six and a half per cent, then the profits on houses must have risen to eight and a half per cent. The renter therefore pays no more for his lot, and one and a half per cent more for his house, than he did when all property was taxed.

This study of the shiftings which take place does not pretend to have any exactness. It simply indicates the approximate result, that when half of the nation's property is completely exempted from taxation, all of its property is half exempted. In other

words the tax removed from the exempted half will be shifted to the renters of the first half. If personalty were again taxed, the owners of city land would be immediately benefited, and city renters would soon be relieved of the indirect tax which they now pay.

Where the resultant of so many conflicting forces must be calculated, it is difficult to construct our parallelograms of velocity. But the general upshot of the whole matter is that about one-half of our direct taxation in cities is not the taxation of capital but of renters, and so levied as to burden the poorest renters most heavily. For in the fashionable quarters the land rent is of as much importance as the house rent, and the tax upon land cannot be shifted to the renter. But in the tenement house quarters the land rent is almost nothing, and the increased tax upon houses bears severely upon the occupiers.

When we come to sum up the burdens of local taxation, we must conclude that in the village and country communities democratic principles still prevail,¹ but that in the cities a portion of the burden is thrown upon the laboring classes, the small property-owners are tremendously overburdened, and the rich capitalists are almost exempt.

¹ Perhaps the principal grievance from which the country communities suffer is what is known as double taxation—the taxation of both the lender and borrower where the loan is secured by mortgage.

Some very curious attempts have been made to justify this taxation. The Massachusetts taxation commission reported that the lender ought to be taxed because he had his profit, and that the borrower must be taxed because he would not borrow unless he too had a profit. The commission forgets the number of bargains prevented by the tax, and also that where the lender pays one and a half per cent tax out of six or seven per cent profit, the borrower must pay the same tax out of perhaps a two per cent profit. To tax both lender and borrower of capital is in every way the same as to tax both the owner and renter of a building. It is worthy of notice in this connection that the taxation of the *creditor* is always spoken of as double taxation. The taxation of the debtor is looked upon as just and right. True, whichever is taxed, it amounts to pretty much the same thing in the long run. Yet if taxation were now transferred from the nominal owners of mortgaged property to the real owners, it would be a long time before the lenders could increase the rate of interest sufficiently to cover the tax. The assertion of the capitalists that double taxation falls entirely upon the borrower is pure demagoguery. If it did thus fall, the capitalist class would not object to it. Capital is worth to the borrower a certain rate per cent and no more. If this capital be taxed twice, the borrower will not pay that much more interest for it. Nevertheless, the fact that capital used by its owner is taxed only

Conclusion.

From the examination of our local taxation it seems obvious that the only serious social injustice which exists in this domain arises out of the exemption of personal property. Can our municipalities or even our states correct this evil?

Our answer is "No." They might do better than they are doing now, but they could not accomplish much. The principle upon which state and municipal taxation must proceed is that which Mr. Enslee of Memphis, Tennessee, stated as follows: "Never tax anything that would be of value to your state and that could and would run away, or that could and would come to you." The municipalities may impose heavy taxes upon real estate and upon the small mechanical and trading industries whose business is purely local. Beyond this they cannot go. Stocks and bonds they cannot reach. Large manufacturing establishments and wholesale houses can establish themselves where they are taxed least. The vast mass of personal property cannot be subjected to local taxation. If taxed at all, it must be by the nation. If taxed by the nation, capitalists would of necessity content themselves with a smaller interest on investments in houses. The indirect taxation of renters would be abolished. All local taxation would again rest upon capital.

But could the national system of indirect taxation be thus easily removed?

The answer is, "No; but the great mass of it could." The

once and that capital used by a borrower is taxed twice is of course oppressive to the latter class. However, this evil of double taxation is real only to the extent that lenders are honest in their returns. Inasmuch as self-justified dishonesty is the rule, the injury to the borrowing class is nothing compared with the injury to the public sense of honor. The apparent injustice of taxing the debtor might be obviated by state laws "taxing the mortgages in the county where they are recorded," or deducting the amount of tax paid from the amount due on the mortgage. It may be that these laws could only be applied to future mortgages. (See *State Tax on foreign-held Bonds*, 15 Wallace, 300, 319.)

It may be added here that though the country communities suffer least from our system of local taxation, they suffer most from the system of national taxation. Even the capitalist class in the country are buyers and not sellers of protected commodities.

taxation of liquors and perhaps of tobacco must for the present be retained. The abolition of all other indirect taxes would leave a deficit of but \$103,000,000. If this amount were levied from untaxed corporations, the \$165,000,000 for revenue and the \$200,000,000 for protection which are now levied upon food, clothing, tools, domestic utensils, and building material could at one stroke be abolished. There are approximately \$7,000,000,000 now invested in railroads alone, whose present taxation (\$13,000,000 in 1880) is almost nothing. If the national government should levy a tax of one and one-quarter per cent upon the stocks and bonds of railroads, telegraph, insurance, and mining corporations, it would have enough to cover the deficit. The next tax which it could and should add would be that of one-half of one per cent upon banks; not upon the nominal stock (which is now often taxed), but upon the capitalized value of the net earnings. The next tax which should be added would be a similar tax upon manufacturing companies. The first step is of course to cut off from them the power of taxing other industries. The next step is to make them pay a tax themselves. Only when this is done, shall we have reached the democratic ideal: Equality before the laws for industries as well as men.

But have we not seriously compromised our principle of not taxing labor when we retain the taxes upon liquors and tobacco? Yes. Even according to the principle of a rationalized income tax, the retention of these taxes results in the overburdening of the laboring classes.¹ In case it is the duty of the government to

¹ The writer has estimated from a great many standpoints the distribution of wealth and of incomes among the various classes in society, and concludes that the distribution of property in America is as bad as it is in France and Germany, but not so bad as it is in England. The distribution of *incomes* is not nearly so bad as in England.

The U. S. Census for 1880 estimates the aggregate wealth of America, but does not attempt to estimate how it is distributed among the various classes. The estimate of the aggregate wealth at \$43,600,000,000 is from every point of view reasonable. The 35,000,000 people in England have according to Mr. Giffen the same wealth as our 50,000,000. Of England's \$43,000,000,000, Mr. Giffen believes that only \$1,500,000,000 (or 4 per cent) is owned by classes not subject to the income tax. According to Baxter (1868) *more than half of the incomes* subjected to the tax were owned by 57,000 persons. It is therefore obvious that much more than half of the

shield labor and not to tax it, the entire sum brought in by these taxes should be devoted to measures *directly* in the interest of the poor; not given to capital in order that it may employ labor, but given to labor in order that it may employ capital.

The tax upon liquors ought to be retained for this purpose. I have said that the economic object of all civilization and of all natural blessings is to lessen the labor-cost of commodities, to make commodities abundant and cheap. There is however a class of commodities which must be excepted from this rule — injurious luxuries. It is not the object of civilization to make intoxicants plenty and cheap, but rather to make them scarce and dear. So long as drunkenness is a great national

capital belonged to this class. It is practically certain that 57,000 persons in England own \$22,000,000,000 of its wealth. In America the distribution of property is not quite so bad. It is quite probable, however, that \$22,000,000,000 of our wealth is owned by 100,000 persons; it is quite certain that *one per cent of our citizens* (or 130,000 men) *own as much property as the remaining ninety-nine per cent.* German and Swiss statistics as well as other American estimates bear out this conclusion. The wealth of this one per cent consists largely in personality, yet the distribution of real estate is much worse than is generally imagined. In the cities of Michigan, according to Labor Commissioner McGrath (Second Annual Report, p. 402), $\frac{1}{100}$ of the inhabitants own 61 per cent of the real estate! The distribution of stocks and bonds, or rather the lack of it, is matter of common notoriety. Bank stocks are more widely distributed than any other, yet there are only seven thousand banks, and generally about ten men own nearly all the stock in each bank. The statistics sometimes given of the number of stockholders interested in various railroads are altogether misleading. The railroads carefully avoid stating what percentage of their stock is held by a few hundred of the largest holders. It is safe to say that 130,000 men own three-fourths of all the stocks and bonds in the country.

From similar data it appears probable that 1,300,000 of our citizens [or ten per cent of them] own fully four-fifths of the property, or \$35,000,000,000. This leaves to "the rank and file" \$8,600,000,000.

To estimate the distribution of incomes is even more difficult. Our census has not even estimated its aggregate amount. Judging from foreign statistics, I suppose that this amount is about \$200 per capita or \$10,000,000,000 in all. I suppose that the upper ten per cent have an income of \$2,800,000,000 from capital and of \$1,900,000,000 from salaries, fees, and profits, over and above interest and capital. I suppose that the remaining ninety per cent have an income of \$700,000,000 from capital and \$5,000,000,000 from salaries, wages, and profits over and above interest on capital. If these incomes be capitalized according to the plan on page 408, the rank and file ought to pay not quite 30 per cent of our taxes [or \$180,000,000]. By the tax on capital they would pay 20 per cent, or about \$120,000,000. If the present tax of \$93,000,000 on liquors were retained and all other indirect taxes were abolished, the rank and file would still be overburdened, not only from the American standpoint, but from the standpoint of a semi-rationalized income tax.

evil, this tax may be retained. The question how the fund thus created should be administered, does not fall within the scope of this paper.

In case tobacco is deemed not one of the goods of this life but one of the evils, it, too, may be taxed. The tax now imposed (\$33,000,000) deducts about two days' wages from the average consumer. The governing classes suppose the tax to indicate their scrupulous puritanism. This is the conscious motive, and unscrupulous selfishness is the unconscious one. This tax might be removed immediately. If retained in order to shield capital, it is a serious compromise with the principles of justice.

The only argument by which a statesman can ever justify indirect taxation is that necessity knows no law. At the foundation of our government the necessity existed. The federation was "a rope of sand." "The constitution," as von Holst expresses it, "had been extorted from the grinding necessities of a reluctant people." To have required the national government to support itself by direct taxation was to have starved it. The support of the influential classes would have been lost, state rights would have been rampant.

But this period has entirely passed away. The laying of railroads, the spreading of literature, the scattering of families, the results of the war, have bound us together into a national unity which is stronger even in public sentiment than in the written constitution. The necessity for indirect taxation has entirely ceased. Where the reason ceases the law should cease.

But more than this, the necessity for direct taxation has arisen. The great national question is no longer sectional unity but class unity. The direct taxation of the rich would formerly have encouraged separation and strife between sections; to-day the direct taxation of the rich is absolutely necessary to prevent separation and strife between classes.

The social bearing of the taxation problem is the only one which the nation has time to consider. Not that the condition of the laboring class is growing worse, but that the separation between classes is becoming dangerous. The wealthy

people of thirty years ago would be classed among the rank and file of to-day. The extra taxation of large fortunes is the only democratic measure which can stop this separation of classes and prevent what seems to many an irrepressible conflict. The doctrine of this paper, the doctrine of *the equal taxation of capital and the non-taxation of labor*, ought to be regarded as a conservative instead of a radical measure. It does not prevent the increased separation of classes; it simply prevents the government from accelerating this separation. It makes no attempt to secure democratic equality; it aims merely at a semblance of democratic justice.

CHARLES B. SPAHR.